

*Senate Budget and Fiscal Review*  
SUBCOMMITTEE NO. 1

EDUCATION  
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**Monday, April 28, 2003**  
**1:30 p.m. (or upon adjournment of the Senate Floor Session)**  
**Room 113**

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## **I. CALIFORNIA STATE LIBRARY**

**GOVERNOR'S PROPOSED BUDGET** includes reductions to a variety of programs administered by the California State Library. The Governor's Budget includes a total of \$61.2 million (from all funding sources) for the California State Library. Of this amount, \$35.7 million is General Fund, which represents a reduction of approximately 38 percent from the amount appropriated in the 2002 Budget Act. (please see chart below)

**BACKGROUND.** The California State Library provides library and information services to the legislative and executive branches of state government, members of the public, and California public libraries. In addition, the State Library administers and promotes literacy outreach programs, develops technological systems to improve resource sharing and enhance access to information, and administers the Public Library Foundation, which, via a formula, distributes state funding to support basic services at local libraries.

<b>California State Library</b>				
<b><u>General Fund Budget Proposals</u></b>				
<i>(Dollars in Thousands)</i>				
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	
	<b>2002-03</b>	<b>2003-04</b>	<b>Amount</b>	<b>Percent</b>
<b>State Operations</b>				
Support/operating budget	13,638	8,929	(4,709)	-35%
Lease-revenue bonds	2,347	2,427	80	3%
Repairs for Sutro Library	23	20	(3)	-13%
Subtotals	16,008	11,376	(4,632)	-29%
<b>Local Assistance</b>				
Library of California Program	1,000	-	(1,000)	-100%
California Civil Liberties Public Education Program	1,000	-	(1,000)	-100%
California Newspaper Project	300	240	(60)	-20%
California Library Services Act <sup>a</sup>	20,510	3,025	(17,485)	-85%
Consolidation Various Literacy Programs <sup>b</sup>	na	5,340	na	na
Public Library Foundation	31,532	15,766	(15,766)	-50%
Subtotals	54,342	24,371	(29,971)	-55%
<b>Totals</b>	<b>70,350</b>	<b>35,747</b>	<b>(34,603)</b>	<b>-49%</b>

<sup>a</sup> 2002-03 amount includes funding for a variety of programs including literacy programs, the direct loan and interlibrary loan program, a computerized data base, and the California Library Services Act. 2003-04 amount includes funding for the Library Services Act and computerized data base.

<sup>b</sup> Governor proposes consolidating funding for the Families for Literacy, California Literacy Campaign and English Literacy Programs in 2003-04. Funding for these programs are included in the California Library Services Act.

### **A. PUBLIC LIBRARY FOUNDATION**

**GOVERNOR'S BUDGET PROPOSES** to substantially decrease (by 50 percent) funding for the Public Library Foundation (PLF), from \$31.5 million to \$15.8 million. Under the PLF, the state provides a minimal degree of assistance to local libraries for such needs as staffing, maintaining hours of operations, development and expansion of literacy programs, purchase of books and research materials, and support the operation of bookmobiles.

The Governor initially proposed decreasing funding for the PLF in the current year (as part of the mid-year reductions) but the proposal was rejected by the Legislature. Funding for the PLF has been reduced dramatically since 2000-01, when \$56.9 million was appropriated for the program (which was vetoed down from \$72.2 million).

### **B. CIVIL LIBERTIES EDUCATION PROGRAM**

**GOVERNOR'S BUDGET PROPOSAL** eliminates the Civil Liberties Education Program (through Trailer Bill language) and all associated funding, for a savings of \$1 million. According to the Legislative Analyst, the California Civil Liberties Public Education Program was initially created in 1999 as a three-year program (legislation was authored in 2000 which extended the program for an additional two years) to provide competitive grants for curriculum development and the dissemination of educational materials to ensure that the events surrounding the exclusion, forced removal and incarceration of Japanese Americans will be remembered and better understood.

*Staff notes* that the core infrastructure of the program could be retained, if desired, for an annual cost of between \$250,000 to \$500,000 annually.

### **C. CONSOLIDATION OF ENGLISH LANGUAGE LITERACY PROGRAMS**

**THE GOVERNOR'S BUDGET** proposes to consolidate three existing English language literacy programs by repealing the existing programs in statute and consolidating the funding under a new California English Acquisition and Literacy Block Grant Program.

Specifically, the Governor proposes to repeal the Families for Literacy Program (\$1.4 million), the California Literacy Campaign (\$3.9 million) and the English Language Literacy Program (\$2.9 million) and develop a new block grant program totaling \$5.3 million. Funds would be dispersed by the State Library to local libraries.

### **D. LIBRARY OF CALIFORNIA**

**THE GOVERNOR'S BUDGET** proposed to eliminate the Library of California Program for a savings of \$1 million. The Library of California program was initially designed to better connect all libraries across the state in order to share information and resources (thus replacing the current Transaction-Based Reimbursement system, which is outlined below),

but since the level of financial support necessary to achieve the goals of the program was never appropriated by the Governor and the Legislature, the program has never been able to achieve its original purpose.

#### **E. TRANSACTION-BASED REIMBURSEMENTS**

**THE GOVERNOR'S BUDGET** proposes to eliminate the Transaction-Based Reimbursement Program (for a savings of \$12.1 million). This program uses state funds to reimburse local libraries for the costs associated with Direct and Indirect Loans (which are discussed below); the governor's proposal would replace this reimbursement process with a fee-for-service based system. The Transaction-Based Reimbursement Program was designed to encourage libraries to cooperatively share their materials and resources with each other in order to better serve Californians.

*Direct Loans.* Currently, California residents may borrow books directly from any library in the state, regardless of where the individual resides. "Direct Loans" allows an individual to borrow materials from libraries outside the jurisdiction of their residence. For a local example, an individual may live in Auburn or Davis, but works in downtown Sacramento and finds it easier to check out books from the Sacramento library. Last year, over 28 million items were made available to borrowers through libraries where the borrowers do not reside. Under the Governor's proposal, a borrower would be charged \$1 for each book or item of material that he/she checked out under the above-noted scenario.

*Indirect Loans.* Indirect loans allow individuals to borrow books from other libraries through an "interlibrary loan" program, where one's hometown library requests a book on the borrowers behalf from another library anywhere in the state. Under the Governor's Budget proposal, borrowers would be charged \$5 for each item sent via inter-library loan.

Opponents of the proposal argue that dismantling the current reimbursement system would charge individuals who need libraries the most (students, seniors, the unemployed, and those of modest income), and would serve as a motivator to all dominant libraries in wealthy communities to denying borrowing to out-of-area residents entirely.

#### **F. CALIFORNIA STATE LIBRARY – STATE OPERATIONS.**

**THE GOVERNOR'S BUDGET** proposes General Fund reductions totaling \$4.7 million or 35 percent. Of this amount, the Governor assumes that \$3 million of the reductions would be offset by a newly proposed "State Library Service User Fee" which would be authorized in statute and allow the State Library to issue (and charge for) a State Library Card.

*Staff notes* that it is unclear if \$3 million in revenue could actually be achieved by charging for the services of the California State Library. For example, many of the library's patrons are utilizing services for the blind, a program which also receives support from the federal

government. Under federal law, patrons may not be charged for these services. Further, staff notes that state agencies and departments are also heavy users of the State Library services, and it is unclear what type of General Fund savings would actually be achieved by requiring state agencies to start paying for these services.

## **II. COMMISSION ON TEACHER CREDENTIALING**

**BACKGROUND.** The Commission on Teacher Credentialing is responsible for developing standards and procedures for the preparation and licensing of public school teachers and administrators, issuing and revoking credentials, evaluating and approving programs and institutions providing teacher training, developing and administering competency exams, establishing policy leadership in the field of teacher preparation and administering the Alternative Teacher Certification Programs.

**GOVERNOR'S PROPOSED BUDGET** reduces the total amount of General Fund spending for the Commission on Teacher Credentialing (CTC) by \$5.6 million or 12 percent (please see chart below). The Governor proposes to augment funding for the Intern Program by \$1.1 million (5%) while the Pre-Intern and Paraprofessional programs would decline by 35 percent and 9 percent respectively. The Governor proposes to eliminate the California Mathematics Initiative, which was initially intended to provide financial assistance to individuals to encourage them to teach mathematics, but has been continually undersubscribed since its inception in 1998.

<b>Commission on Teacher Credentialing</b>				
<b><u>General Fund Budget Proposals</u></b>				
<i>(Dollars in Millions)</i>				
	<b>Revised</b>	<b>Proposed</b>	<b>Change</b>	
	<b>2002-03 <sup>a</sup></b>	<b>2003-04</b>	<b>Amount</b>	<b>Percent</b>
<b>Local Assistance – Proposition 98</b>				
Internship Teaching Program	\$21.5 <sup>b</sup>	\$22.5	\$1.1	5%
Pre-internship Teaching Program	16.0 <sup>c</sup>	10.4	-5.6	-35
Paraprofessional Teacher Training Program	7.2	6.6	-0.6	-9
Teacher Misassignment Monitoring	0.4	0.3	--	-12
California Mathematics Initiative for Teaching	0.4	--	-0.4	-100
<b>TOTALS</b>	<b>\$45.4</b>	<b>\$39.8</b>	<b>\$-5.6</b>	<b>-12%</b>

<sup>a</sup>. Assuming passage of AB 8X (Oropeza).

<sup>b</sup>. Of this amount, \$17.3 million is Proposition 98 (General Fund) and \$4.2 million is reappropriated from the Proposition 98 Reversion Account.

<sup>c</sup>. Of this amount, \$11.8 million is Proposition 98 (General Fund) and \$4.2 million is reappropriated from the Proposition 98 Reversion Account.

**A. INTERN, PRE-INTERN AND PARAPROFESSIONAL PROGRAMS** The Legislative Analyst recommends that the Legislature consider enacting legislation to create greater coherence among the CTC-administered Teaching Intern, Pre-Intern and Paraprofessional Training Programs. Specifically, the LAO has noted a variety of inconsistencies among the programs including, (1) the funding rate provided per participant and (2) the local match, which is required for the Intern program but none of the others.

In response, the CTC notes revising the rate to \$2,000 per participant, regardless of the program, would have an adverse impact on both the Intern and the Paraprofessional Training Program (both of which are funded at levels above the \$2,000). Given that the Paraprofessional Training Program is funded \$3,000 per participant (per year) in order to cover full tuition for participants attending a Community College or CSU institution, any reduction in that program would have to be absorbed directly by the participant. Given that the total cost of education at a Community College or CSU far exceeds the cost of fees/tuition, participants are already being required to pay out-of-pocket expenses. Additional out-of-pocket expenses would be extremely difficult for participants, who are already working in classroom jobs paying less than \$20,000 per year. For the Intern Program, CTC anticipates that services such as outreach into rural areas, data collection and intern support would be adversely impacted by a per participant funding reduction.

Further, CTC notes that requiring a dollar-for-dollar match requirement for all three programs would also have an adverse impact on the program given the lack of resources available at the local district level.

### **Summary of CTC's Major Local Assistance Programs**

<b>Program</b>	<b>Description</b>	<b>Funding Per Participant</b>	<b>Estimated Number of Participants (2002-03)</b>
Internship Program	Provides training and on-site support for new teachers who have already demonstrated subject matter competency but have not yet obtained their full teaching credential.	\$2,500	8,561
Pre-internship Program	Provides subject-matter test preparation as well as training in classroom management and basic pedagogy for new teachers who have not yet demonstrated subject matter competency.	\$2,000	11,748
Paraprofessional Teacher Training	Provides academic scholarships to teachers' aides and assistants for the purpose of completing college coursework and obtaining teaching credentials.	\$3,000	2,268

**B. ABILITY TO SHIFT FUNDS BETWEEN BUDGETED PROGRAMS** As part of its analysis of the Budget bill, the LAO has recommended that the Legislature provide the CTC with flexibility to move funds between the various teacher training programs in order to respond to teachers' needs over the next several years. Current law provides CTC with the ability to move funds from the intern to the pre-intern program; however, the LAO notes that in order to better address the needs of districts, CTC should be allowed to move funds between all three programs. *Staff notes* that it is unclear if the LAO's flexibility proposal is contingent upon the legislature developing a single, standardized rate for the programs.

**C. REPORTING LANGUAGE ON EFFECTIVENESS OF INTERN PROGRAMS** The LAO recommends that the CTC be required to report on the cost-effectiveness of its programs by demonstrating that (1) its programs produce better results compared to districts that operate programs without CTC's assistance and (2) the districts CTC does serve are significantly better than they otherwise would have been without CTC's assistance.

In response, the CTC notes that it does not, internally, have any funding to do the type of data collection and analysis that the LAO is requesting. While it is possible to use part of the funds provided per participant, in programs where the funding rate is \$2,000 per participant, there is not enough staff support to collect the needed data from districts.

**D. REDIRECTING OF FEDERAL FUNDS FOR EMERGENCY PERMIT HOLDERS** The Legislative Analyst recommends that the Legislature redirect \$3.1 million in federal Title II funds to expand the subject matter training programs for emergency permit holders. Specifically, the LAO recommends redirecting \$1.6 million that had previously been appropriated for the past two years (but not yet spent) for the Principal Training Program to instead provide one-time supplemental services to assist emergency permit holders in improving their subject matter competency. By using the funds on a one-time "transitional" basis, districts would be assisted in meeting the new federally-mandated "highly qualified" teacher requirements.

### **III. CHILD DEVELOPMENT POLICY ADVISORY COMMITTEE (CDPAC)**

**BACKGROUND.** The Child Development Policy Advisory Committee (CDPAC) was created in 1965 as the Governor's Advisory Committee on Preschool and Educational Programs. CDPAC operates as a citizen's review board comprised of representatives from five state departments and appointed members, including parents, public members, and family child care and child care center operators. CDPAC's mission is to provide a forum for public input on child development, and to provide public policy recommendations to the Governor, the Legislature, the Superintendent of Public Instruction, and the Secretary of Education that

encourage policies and programs which are long range, developmentally appropriate and socially advanced.

**A. ELIMINATION OF CDPAC** For the second year in a row, the Governor's Budget proposes to eliminate the Child Development Policy Advisory Committee, as of July 1, 2003. Eliminating CDPAC would result in General Fund savings of \$367,000 General Fund (\$619,000 from all funding sources) due to the elimination of 5.3 positions and operating expenses and equipment. The mid-year revision reduced funding for CDPAC by 5 percent.

#### **IV. CHILD CARE SERVICES**

**BACKGROUND.** Under current law, the state makes subsidized child care services available to: (1) families on public assistance and participating in work or job readiness, (2) families transitioning off public assistance programs, and (3) other families with exceptional financial need.

Child care services provided within the California Work Opportunity and Responsibility to Kids (CalWORKs) program are administered by both the California Department of Social Services and the California Department of Education, depending upon the "stage" of public assistance or transition the family is in. Stage 1 child care services are administered by the Department of Social Services for families currently receiving public assistance, while Stages 2 and 3 are administered by the Department of Education.

Families receiving Stage 2 child care services are either receiving a cash public assistance payment (and are deemed "stabilized") or are in a two-year transitional period after leaving cash assistance; child care for this population is an entitlement under current law. Under current law, the State allows counties flexibility in determining whether a CalWORKs family has been "stabilized" for purposes of assigning the family to either Stage 1 or Stage 2 child care. As a result, depending on the county, some families may be transitioned to Stage 2 within the first six months of their time on aid, while in other counties a family may stay in Stage 1 until they leave aid entirely.

Families receiving Stage 3 child care services have either exhausted their two-year Stage 2 eligibility or are deemed to have exceptional financial need (the "working poor"). Child care services for Stage 3 are divided into two categories: (1) General Child Care – which is available on a limited basis for families with exceptional financial need and the (2) Stage 3 Set-Aside – which makes child care slots available specifically for former CalWORKs recipients. The availability of care under Stage 3 is discretionary and contingent upon the amount of funding appropriated for the program in the annual Budget Act. Under current practice, services to these two populations are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKs recipients.

Child Care is provided through either licensed child care centers or the Alternative Payment Program.

- *Child Care Centers* receive funding from the state which pays for a fixed number of child care “slots”. Centers provide an educational program component that is developmentally, culturally, and linguistically appropriate for the children serviced. Centers also provide nutrition education, parent education, staff development and referrals for health and social services programs. In many areas in the State there are no available “slots” in licensed Child Care Centers or Family Day Care Centers and families are forced to use licensed-exempt care.
- *Alternative Payment Program* provides child care through means-tested vouchers, which provide funding for a specific child to obtain care in either licensed child care centers, licensed family day care, or licensed-exempt care. With a voucher, the family has the choice of which type of care to utilize.

**A. GOVERNOR’S BUDGET** The Governor’s Budget included a dramatic proposal to shift responsibility for most of the state’s child care programs (excluding the preschool and after school programs) from the California Department of Education to local counties. This action was slated to result in General Fund Proposition 98 savings of \$879 million.

Under the Governor’s proposal, the state would have turned over its child care programs (as well as a variety of other health and human services programs) to the counties, which would have received approximately \$8.2 billion in revenue from increased taxes to support child care and the other programs proposed for realignment.

Given the complexity to structurally realign child care services within only a matter of months, this Committee took action on March 24, 2003 to reverse the Governor’s Realignment Proposal as it pertains to child care.

**B. EFFECTS OF DENYING REALIGNMENT** Under the Governor’s realignment proposal, child care was removed from the Proposition 98 Guarantee and the Guarantee level was “re-benched” downward to compensate for the programmatic shift to the counties. Upon denying the Governor’s proposal, the Committee on the natural, increased the amount of the Proposition 98 Guarantee by \$879 million (which is the amount of General Fund the Governor initially reduced in order to realign child care to the counties).

If the committee wishes to continue funding the existing child care programs, without any programmatic changes, it will take an additional \$291 million of Proposition 98 funding (this is due to projected caseload increases in CalWORKS Stage 3 and a reduction in the amount of federal funding expected to be available to support the program).

The additional \$291 million in costs could be funded by (1) shifting dollars from other items within K-14 education, or (2) drawing resources from non-98 General Fund, which would increase the minimum Proposition 98 Guarantee. Given that the Legislative Analyst is projecting that the minimum Proposition 98 Guarantee may increase as part of the Governor's May Revision, the Committee may wish to consider allocating a portion of those funds (which must be spent on education) to fill the budgetary "hole" left in the child care program due to not realigning services to counties. Further, the committee may also wish to consider a variety of cost-saving programmatic reforms (as discussed later in the agenda) in order to reduce the need to fill the \$291 million "hole" in the Budget Year.

**C. PROBLEMS WITH CURRENT CHILD CARE SYSTEM.** The LAO, as well as a variety of other entities, notes a variety of problems and concerns with the current child care delivery system. To summarize, the LAO finds that (1) the current system is unnecessarily complex, (2) administration is cumbersome and expensive, (3) the costs for Stage 3 child care services are growing substantially, and (4) the current system treats similar families differently.

Following is a discussion of two of the most problematic issues facing child care: (1) The growing costs for CalWORKS Stage 3 Child Care and (2) inequities in the treatment of similar types of families within the child care system.

1. **GROWING COSTS FOR CALWORKS STAGE 3 CHILD CARE** Over the past several years, there have been numerous discussions around the issue of skyrocketing costs within the CalWORKS Stage 3 Child Care Program. In particular, a 2001 report, authored by *The Results Group*, suggested that future growth in Stage 3 services would become fiscally unsustainable; it is this assumption that has underpinned the Administration's continued efforts to dramatically reform, and in the Budget Year realign, child care services.

The Administration estimates that the costs to fully-support the projected CalWORKS Stage 3 child care needs in the Budget Year would exceed \$450 million, which represents an increase of approximately \$93 million (26 percent) above the current year Budget Act. The LAO notes that, with no restrictions on the program, costs can be expected to rise in the out-years.

In order to contain the skyrocketing out-year costs, there are a variety of mechanisms that the Legislature can employ to either limit the population of families receiving services and/or reduce the costs associated with providing those services. Additional options include charging families more to participate in the program and reducing the amount of funding allocated to providers for services and/or administrative costs.

*Following is a listing and discussion of options for the committee to consider when examining solutions for containing costs within the program:*

- REDUCING INCOME ELIGIBILITY FOR PARTICIPATION – Under current law, families cannot receive subsidized child care if their income is more than 75 percent of the State Median Income (SMI). For a family of four, this equates to an income of no more than \$39,000 per year. A small number of families (2,340 families statewide) that were receiving subsidized child care prior to 1997 are still subject to a “grandfather clause” which allows them to earn up to 100 percent of the SMI (or \$52,000 for a family of four).

There are several options available to limit the income eligibility for participation in the program that would result in programmatic savings, including the following options identified in *The Results Group Child Care Study*:

- a) Removing the existing “grandfather clause” and applying the current eligibility requirements (75 percent of SMI) to those families (potential savings of \$24 million).
- b) Reducing income eligibility to 70 percent of the SMI, which equates to a maximum annual income for a family of four of \$36,400 (potential savings of \$47 million).
- c) Reducing the income eligibility to 70 percent of the SMI in counties with high child care costs and to 65 percent of the SMI in counties with lower child care costs (potential savings of \$61 million).
- d) Reducing income eligibility to 65 percent of the SMI, which equates to an annual income of \$33,800 for a family of four (potential savings of \$95 million).

As part of the Governor’s 2002 Child Care Reform Proposal, the Administration proposed to reduce income eligibility from the current 75 percent of the SMI to 66 percent of the SMI in high-cost counties, 63 percent of the SMI in moderate-cost counties, and 60 percent of the SMI in low-cost counties.

*Staff notes* that it is difficult to estimate the actual budgetary savings associated with each of the proposals due to the interactions between them and the likelihood that estimated savings in Center-based programs are difficult to achieve. Due to the “fixed costs” associated with Child Care centers, savings from reducing the number of “slots” are not truly realized until an entire “class” or “program” is closed.

- CREATING TIME LIMITS FOR CHILD CARE – Under current law, families receiving child care can continue to receive care until either the family loses income eligibility or the child reaches the maximum age (13 years). There are several options available to limit the amount of time families can participate in the program, in order to achieve programmatic savings. Following are the options identified in *The Results Group* Child Care Study:
  - a) Eliminate Stage 3 services for CalWORKS recipients altogether (potential savings of \$350 million).
  - b) Limit non-CalWORKS family participation in the program to seven years (potential savings of \$10 million).
  - c) Limit all family participation in the program to seven years (potential savings of \$14 million).

Additional options include:

- d) Placing a six-month moratorium on replacing families that have lost eligibility for the program. Under current practice, when one child stops receiving care, the next child on the list becomes eligible.
- e) Determine a monetary savings “target” and suspend new enrollment in the program until that target has been reached. This would essentially institute a moratorium for an undefined period of time until the savings are achieved.

*Staff notes* that the State does not currently track how long families have been receiving child care services, so it is difficult to estimate either the impact of these proposals on people currently being served or their associated savings.

- REDUCING THE MAXIMUM AGE FOR CHILDREN RECEIVING CARE – Under current law, most children can continue to receive child care through age 13 (until their 14<sup>th</sup> birthday). *The Results Group* Child Care Study suggested that the State could save approximately \$7 million by reducing the maximum age of eligibility to age 12. This proposal was included in reforms proposed by the Governor last year.

*Staff notes* that age 13 is generally considered the age at which a child is mature enough to be left unattended; however, it is also an extremely vulnerable and influential time in a child’s life. When examining this option, the committee may also wish to consider the availability of after school programs (both state and non-profit) which may be more appropriate to the needs of 13 year olds.

- *INCREASING FAMILY FEES* – Currently, families earning over 50 percent of the SMI (\$26,000 income for family of four and up) are required to pay a fee for their child care services. The fee is assessed on a sliding scale based upon the income and size of the family. The fees are capped at 8 percent of the family income. Following are the fee options identified in *The Results Group Child Care Study*:
  - a) Charging fees at 30 percent of the SMI, and capping fees at 10 percent of income (potential savings of \$63 million).
  - b) Charging fees at 20 percent of SMI, and capping fees at 10 percent of income (potential savings of \$65 million).
  - c) Charging fees at 20 percent of SMI, and capping fees at 12 percent of income (potential savings of \$76 million).
  - d) Charging fees at 20 percent of SMI, and capping fees at 15 percent of income (potential savings of \$122 million).

*Staff notes* that when considering an increase in family fees, the committee may wish to examine (1) if fees should be assessed per child or per family; (2) at what income level should fees begin to be assessed; (3) how fees would be collected; and (4) the portion of a family's income should be spent on child care fees.

- *REDUCING ADMINISTRATION AND SUPPORT COSTS* – Within the Alternative Payment Program, providers certify the eligibility of a family for care, assist them in finding care, pay the child care provider the provider's rate, and collect any fee the parents owe. To cover the costs associated with these services, the provider may keep up to 20 percent of the contract amount to be used to support their administration (15 percent) and supportive services (5 percent).

It is anticipated that the State could save approximately \$12 million for every one percent of administrative costs that are reduced. *Staff notes* that if such a change were adopted, it would be the second time in two years that the administrative reimbursement rates for providers would be reduced.

- *REDUCING PROVIDER REIMBURSEMENT RATES* – Currently, the Department of Education provides child care centers with a standard reimbursement rate of \$27.59 per child per day. That rate is adjusted upward for children with special needs, children at risk, as well as infants and toddlers.

Providers that are being paid using a voucher (under the Alternative Payment Program) are funded up to the Regional Market Rate (which is the average cost of care in each region in the state) plus 1.5 standard deviations, as determined in annual market rate surveys. Separate rates are calculated depending on provider type, age of children, and length of care. Currently, the State pays the maximum rate to 93 percent of the child care providers in the state.

*The Results Group* identified a variety of options to reduce the rate of reimbursement including

- a) Reducing the Regional Market Rate ceiling to the 85<sup>th</sup> Percentile (potential savings of \$58 million.)
  - b) Reducing the Regional Market Rate ceiling to the 75<sup>th</sup> Percentile (potential savings of \$92 million.)
- UPDATE ON SIMPLIFICATION OF MARKET RATES – The 2002-03 Budget Act included language directing the Department of Education and the Department of Social Services, in consultation with the Department of Finance and the LAO, to develop a new methodology to be used for future Regional Market Rate surveys.

At this time, the committee would like to request an update on this process, including any potential for budgetary savings.

2. **EQUITY IN THE AVAILABILITY OF CHILD CARE SERVICES** Currently, the need for subsidized child care far outweighs the resources available to support the program. Estimates of unmet need for subsidized child care services suggest that between 200,000 and 300,000 children are currently on waiting lists for subsidized care.

Under current practice, services to both former CalWORKS recipients and other eligible families are supplied by the same group of child care providers; however, waiting lists are kept separate with priority being granted to the former CalWORKS recipients. The Administration has argued that this process is inequitable in that it treats families which may actually have the same income level – differently.

*Staff notes* that the risk of NOT granting priority to former CalWORKS recipients is that, without reliable child care, these families would not be able to work and would likely return to public assistance. As an additional note, *The Results Group* study found that 36.3 percent of the total Stage 3 caseload had income low enough to qualify for public cash assistance.

## **V. DEPARTMENT OF EDUCATION – STATE OPERATIONS**

**GOVERNOR’S PROPOSED BUDGET** assumes that child care services would be realigned to counties, and as a result, eliminates 77.8 personnel years (PYs) and \$9 million in support related to the Department of Education’s child care programs. Of this amount, \$2.7 million is General Fund and \$6.3 million is federal funds. This reduction leaves \$4.7 million for 38 PYs in the Budget Year to administer the state preschool and before and after school programs, assist in the realignment transition, and close out pending child care audits.

Given that the Committee has already taken action to reverse the Governor’s Child Care Realignment Proposal, *staff recommends* that the committee request the Department of Education, the Department of Finance and the LAO to develop a state operations proposal for the Child Care division that reflects the reversal of realignment but includes a reduction proportionate to the state operations reductions being sustained by the remainder of the Department of Education.

## **VI. Proposed Consent**

Staff recommends that the following items be Approved as Budgeted.

6120-011-0020 Support, California State Library. Payable from the State Law Library Special Account. \$709,000.

6120-011-0890 Support, California State Library. Payable from the Federal Trust Fund. \$5,781,000

6120-011-6000 Support, California State Library. Payable from the California Public Library Construction and Renovation Fund. \$2,530,000.

6120-012-0001 Support, California State Library. Lease-Revenue Bonds. \$2,427,000.

6120-013-0001 Support, California State Library. Sutro Library Special Repairs Project. \$20,000.

6120-151-0493 *April Finance Letter*. Local Assistance, California State Library. Telephonic Newspaper and Reading Services for the Visually Impaired. Payable from the California Teleconnect Fund Administrative Committee Fund. \$40,000.

6120-160-0001 Local Assistance, California State Library. California Newspaper Project. \$240,000.

6120-211-0890 Local Assistance, California State Library. Library Development Services, Payable from the Federal Trust Fund. \$12,518,000.

6360-001-0407 *April Finance Letter*. State Operations, California Commission on Teacher Credentialing. Carryover of funds for the Teacher Credentialing Service Improvement Project. Payable from the Teacher Credentials Fund. \$91,000.

6360-001-0408 Support, California Commission on Teacher Credentialing. Payable from the Test Development and Administration Account, Teacher Credentials Fund. \$9,744,000.

6360-001-0890 Support, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. \$7,000

6360-101-0890 Local Assistance, California Commission on Teacher Credentialing. Payable from the Federal Trust Fund. \$378,000

6360-495 Reversion, California Commission on Teacher Credentialing. Revert \$296,658 from Chapter 544, Statutes of 1998 to the Teacher Credentials Fund.